

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 STR-08 CEA-02 AID-20 COME-00

EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 OMB-01 DRC-01 /209 W
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R 211734Z NOV 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 4937

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

USMISSION EC BRUSSELS UNN

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E. O. 11652: N/A

TAGS: EGEN, EFIN, EEC, FR

SUBJECT: STAGE TWO OF EMU

1. FREYCHE, ECONOMIC AND FINANCIAL ADVISOR TO PRESIDENT
POMPIDOU, HAS GIVEN US CURRENT GOF THINKING ON WHETHER OR
NOT THE EC SHOULD MOVE TO STAGE TWO OF ECONOMIC AND MONETARY
UNION ON JANUARY 1, 1974. FREYCHE SAID THAT THIS WAS LARGELY
A PROBLEM OF SEMANTICS, SINCE STAGE TWO HAD NEVER BEEN
DEFINED. HE SAID PRESIDENT POMPIDOU HAD DISCUSSED THIS
QUESTION DURING HIS RECENT MEETING WITH PRIME MINISTER HEATH
AND WOULD BE DISCUSSING IT AT HIS MEETING WITH CHANCELLOR BRANDT
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IN PARIS NEXT WEEK. THE UK AND ITALY WERE BOTH KEENLY

INTERESTED IN THE MATTER BECAUSE ONE OF THE STEPS CONTEMPLATED IN STAGE TWO WAS THE ESTABLISHMENT OF THE REGIONAL DEVELOPMENT FUND.

2. FREYCHE SAID THAT THE PRESENT OUTLOOK IS HTAT THERE WOULD BE AN AGREEMENT ON ENTERING A NEW PHASE OF EMU ON JANUARY 1, 1974, ALTHOUGH IT WAS NOT YET CLEAR WHETHER THIS WOULD BE CALLED STAGE TWO OR AN INTERIM STAGE. IT SEEMED VERY LIKELY A REGIONAL DEVELOPMENT FUND WOULD BE ESTABLISHED AS ONE OF THE STEPS MARKING THE PASSAGE TO THE NEW STAGE, ALTHOUGH THE AMOUNT WITH WHICH THE FUND WOULD BE INITIALLY ENDOWED WAS STILL TO BE DECIDED. FREYCHE THOUGHT IT MUCH LESS LIKELY THAT THERE WOULD BE AN AGREEMENT ON A PARTIAL POOLING OF RESERVES UPON THE ENTRY INTO THE NEW STAGE. ONLY THE COMMISSION SEEMED EAGER FOR THIS AT THE PRESENT TIME.

3. FREYCHE CONFIRMED THAT THERE HAD BEEN AN IMPORTANT CHANGE IN POMPIDOU'S THINKING ON ECONOMIC AND MONETARY UNION. PREVIOUSLY, POMPIDOU HAD PUT ALL HIS EMPHASIS ON THE MONETARY SIDE OF EMU. HE HAD PUSHED FOR NARROWER BANDS, FIXED RATES WITHIN THE EC CURRENCIES, AND A POOLING OF RESERVES, AND HAD OPPOSED THE HARMONIZATION OF ECONOMIC POLICIES ADVOCATED BY THE GERMANS. HE HAD NOW COME TO BELIEVE, IN PART BECAUSE OF THE EFFORTS OF FREYCH AND OTHERS, THAT IT WAS IMPOSSIBLE TO BRING ABOUT MONETARY INTEGRATION WITHOUT HARMONIZING DOMESTIC ECONOMIC POLICIES. FOR EXAMPLE, FREYCHE POINTED OUT, IT WAS VERY DIFFICULT TO MAINTAIN THE SNAKE WITHOUT COMMON CREDIT POLICIES. FREYCHE SAID POMPIDOU'S BETTER UNDERSTANDING OF THESE FACTORS HAD LED HIM TO ADOPT A MORE CONCILIATORY ATTITUDE TOWARD UK AND ITALIAN INSISTENCE ON REMAINING OUT OF THE SNAKE FOR THE TIME BEING. BY THE SAME TOKEN, HE NOW BELIEVED THAT GREATER EMPHASIS SHOULD BE PLACED ON HARMONIZATION OF ECONOMIC POLICIES IN ORDER TO CREATE THE CONDITIONS WHICH WOULD MAKE IT POSSIBLE FOR THE LIRE AND THE POUND TO COME INTO THE SNAKE. FREYCHE ADDED THAT THE CHANGE OF FRENCH ATTITUDES WAS JUST THE BEGINNING OF THE PROCESS OF ECONOMIC HARMONIZATION. MANY DIFFICULT AGREEMENTS WOULD HAVE TO BE REACHED ON THE MODALITIES OF SUCH HARMONIZATION. BUT THE FACT THAT POMPIDOU NOW ACCEPTED THE NEED FOR SUCH HARMONIZATION WAS, IN FREYCHE'S VIEW, AN IMPORTANT AND REALISTIC STEP FORWARD.

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DECON DEC 31, 1976.
IRWIN

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